Karel - Gordon & Associates

PENSION CONSULTANTS, PLAN ADMINISTRATORS AND ACTUARIES

Advisor Connect | Mergers and Acquisitions

MAKING IT ACTIONABLE

Everyday companies large and small make decisions to combine forces. In fact, in 2017, more than 15,000 companies announced a merger or an acquisition. It probably won't surprise you, but M&A activity spans all major industry sectors and nearly all geographies. For some, it's a strategy for growth. For others, it's a defensive move to survive as markets and business requirements change. Whatever the motivation, there are almost always impacts on retirement benefits.

Think about it: two companies merge. They both have retirement plans. Now what? It can be complicated. Many factors need to be considered, and once the companies arrive at a course of action, there's a lot of work to be done.

ACTION TO TAKE NOW

There are a couple of important things every advisor needs to know to help start the conversation. Before we can consult on the right answers, we need to focus on asking the right questions.

1 Is this an asset purchase or an entity purchase?

In other words, is the acquiring company buying the assets of the target company or are they buying the entity itself?

*In an **asset purchase**, the acquiring company generally doesn't assume the assets and liabilities of the other company. That includes responsibility for the target company's retirement plans.*

*In an **entity purchase**, as you'd expect, the target company becomes part of the acquirer's organization. In that case, the acquirer generally does become responsible for the target company's retirement plan.*

2 What are the companies' intended courses of action?

Terminating the target company's plan prior to acquisition is one common approach. Merging the target company's plan into the acquiring company's retirement plan is another possibility.

As in everything to do with mergers and acquisitions, the devil's in the details because both parties have serious fiduciary and practical responsibilities to consider.

3 Due diligence checklist

The due diligence checklist of issues to research, assess, and report on before and after the merger event is well beyond the scope we can cover here. To address it briefly, that checklist includes:

- [ ] Assess the target company's plan quality
- [ ] Make sure the plan doesn't have operational or administrative issues that could trigger future audits
- [ ] Consider features and protected benefits that can't be eliminated
- [ ] Review participant rollover and distributions rules
- [ ] Review plan termination rules

The good news is - you've got expert partners ready to help you understand these complex issues and serve the interests of clients who find themselves merging or acquiring others. When the time arises to learn more, don't hesitate to reach out. We're here to help.